

This record is a partial extract of the original cable. The full text of the original cable is not available.

231630Z Feb 06

UNCLAS SECTION 01 OF 02 PARIS 001129

SIPDIS

PASS FEDERAL RESERVE  
PASS CEA  
STATE FOR EB and EUR/WE  
TREASURY FOR DO/IM  
TREASURY ALSO FOR DO/IMB AND DO/E WDINKELACKER  
USDOC FOR 4212/MAC/EUR/OEURA

E.O. 12958: N/A

TAGS: [EFIN](#) [ECON](#) [PGOV](#) [FR](#)

SUBJECT: French Investment Flows Double in 2005

Refs: (A) 05 PARIS 7771

(B) PARIS 755

**1. SUMMARY.** Based on preliminary data, direct investment flows both to/from France doubled in 2005. French companies continued to invest twice as much abroad than foreign companies invested in France. France plans to intensify economic relations with countries with high investment potential, namely, the United States, Japan, India, China and Russia, and introduce measures to improve its own investment climate. END SUMMARY

#### Direct Investment Inflows and Outflows Rebounded in 2005

**2.** Based on Bank of France's balance of payments data, both French direct investment abroad and foreign direct investment (FDI) in France rebounded in 2005 after decreasing in the previous four years. French direct investment outflows more than doubled to 79.7 billion euros in 2005, from 38.3 billion euros in 2004. Lafarge, the world leader in construction materials; Suez, a large industrial and services group; and Saint-Gobain, a materials mega group, were major contributors to the increase in investment abroad. Similarly, FDI inflows doubled to 38.3 billion euros in 2005, from 19.6 billion euros in 2004. 2004 was a year marked by a number of public exchange offers that resulted in disinvestments. In 2005, France benefited from the worldwide recovery in merger and acquisition activity. It should be noted that BOP data is preliminary; in its May 2006 annual review, the French Agency for International Investment ("Agence Francaise pour les Investissements Internationaux" - AFII) will provide more details on the largest projects that were completed in 2005. The Bank of France will provide comprehensive data on 2005 investment flows in September 2006.

#### Investment Authority Argues France is an Open Economy

**3.** Clara Gaymard, the head of AFII, welcomed the FDI rebound. She emphasized that France is "an open economy", which has remained among the top five recipients of FDI in the last few years. Quizzed about the impacts of unrest in suburbs on foreign investment (ref A) and about a recent apparent example of protectionism (the Arcelor affair, ref B), she argued that the best proof that the French economy is not protectionist is that about 900 French companies (worth 350 billion USD) were purchased by foreign investors in the last five years. She mentioned "a paradox", despite French efforts to eliminate obstacles to FDI (citing professional tax, tax on high incomes, or the 35-hour work week) and to implement reforms (pensions), investors still have a "distorted image" of France. Too many people think that France is not developing enough new technologies, and fear that France has a social and economic model that is out of control. In recent statements, she reaffirmed that improving France's attractiveness was increasingly becoming a government priority. In December 2005 for example, she indicated that 10 new measures would be adopted by March 2006 to improve France's economic attractiveness. AFII usually focuses on "attractiveness", which is a different concept than competitiveness, which concentrates on empirical evidence provided by international capital and investment flows, and moves of highly skilled managers and workers into France.

#### Government Intensifies Economic Relations with Promising Economies

**4.** The government plans to intensify economic relations with five countries with high investment potential, namely the United States, Japan, India, China and Russia. During her second visit to India in December 2005, Gaymard personally invited Indian companies to continue to invest in France. Significantly, AFII had no office in India until 2004, but now joins other countries in recognizing the potential in the region. In a February visit to India and

Thailand, President Chirac took a group of 40 businessmen to improve investment and economic relations. France is only the 12th largest foreign investor in India, well behind the United States, the U.K., Germany, the Netherlands, Japan and South Korea, and the 7th largest foreign investor in Thailand. On February 22, Foreign Trade Minister Christine Lagarde visited Japan to encourage Japanese investment in France, and helped arrange meetings between executives. A social security bilateral agreement to avoid double taxation of executives has been ratified by the Japanese government, but still has to be passed by the French Parliament. President Chirac plans to return to China in September 2006 to develop economic ties with that country. Around 100 Chinese businesses have established in France, accounting for a total investment of about 60 million dollars. An association of Chinese businesses in France is expected to be created in the first quarter of 2006.

Comment

-----

15. Although the strong growth in investment flows is good news, the fact that French direct investment outflows still were double the FDI flows to France will not reassure those who are concerned about French companies moving jobs overseas. France's future success in both investing further abroad and attracting foreign direct investment at home will heavily depend on maintaining or improving its international competitiveness. Measures the government might announce in March may improve France's attractiveness, but probably not its general competitiveness, since no major reform projects are in the pipeline.

HOFMANN